

Look Who Won in Your Neighborhood



HOOSIER  LOTTERY

2002 Annual Report

Hoosier Lottery Executive Staff and Commissioners



Pictured (Back L to R): Gary Catey, director of sales; Michael Gouloff, commissioner; Gerry Van Meter, director of security; Roger Eiteljorg, commissioner; Colleen O'Brien, director of communications; George Weems, commission chairman; Joseph D. Pfister, internal auditor; (Middle L to R): Dave Kress, director of information services; Leon Fleck, commissioner; Nancy Dorsa, deputy director/controller; Andrew Reed, director of public relations; (Front L to R): Norman Aranda, director of administration; Yvette Payne, commissioner; John M. Ross, director; Charles O'Hara, director of marketing; Janna Shisler, general counsel

A Winner on Every Block

Indiana's tough economic climate makes the Hoosier Lottery's role more important than ever. Which is why I'm happy to report that the Lottery had \$626 million in total sales for fiscal year 2002, a \$78 million increase over the previous fiscal year. This allowed the Lottery to transfer approximately \$169 million to state coffers, adding to the more than \$2 billion that the Lottery already has provided to the state of Indiana since its inception in 1989.

Although we're proud of such a substantial sales increase, the real success story is for the state of Indiana. This is the ninth consecutive year that the Lottery generated more than \$150 million for important programs and projects designated by our elected officials.

All Hoosiers win with the Lottery, whether or not they play. The Lottery benefits local retailers, reduces vehicle excise taxes, supports public safety employees' pension funds and improves the quality of life for residents in all 92 counties.

We attribute this year's success to a business strategy, designed and implemented in fiscal year 2002, to decrease the Lottery's reliance on large jackpots for sales. In the past, ticket sales were high if the Hoosier Lotto or Powerball jackpots grew to a certain level. But if the jackpots remained consistently low, Lottery sales would suffer. The Lottery can't

control jackpots, so this year we wanted to ensure that we could raise substantial revenue for Hoosiers regardless of high jackpots.

The strategy for fiscal year 2002 focused on raising the prize payouts for scratch-off tickets; adding a midday draw for the Daily 3 and Daily 4 games; launching the new Max 5 online game to replace 5 Card Cash; and revamping the Hoosier Millionaire show and ticket.

The new marketing strategy involved some risk because the Lottery could have paid out more prizes without increasing sales. Fortunately, the risk paid off. Our scratch-off players quickly recognized the increase in prizes paid and ultimately bought more tickets. This was our greatest source of increased revenue this fiscal year.

The Lottery laid a foundation in fiscal year 2002 that will allow us to accomplish big things during this new fiscal year. In keeping with our mission, the Hoosier Lottery will continue developing games that appeal to players and offer a new level of excitement, which in turn will allow us to achieve our primary business objective – to raise more money for Hoosiers living and working in communities throughout Indiana.


Lottery Director


Chairman Commission



Karl Ralph

Lottery products are a key element of Karl Ralph's business. The first question he asks a potential employee is, "Can you run a lottery machine?"

Selling Lottery Products Boosts Retailers' Bottom Line

Karl Ralph owns Edco, a gas station and convenience store in Evansville. He's been a Hoosier Lottery retailer since day one.

According to Lottery Region 7 Manager June Leslie, Edco is an example of a "true mom and pop" store that's thriving despite competition from larger chain retailers. What Edco lacks in size, it makes up in customer service. Players drive from as far as Kentucky – passing several Lottery retailers along the way – just to buy their tickets from Edco.

Ralph appreciates the impact those ticket sales have on his store's bottom line. Edco averages \$5,000 a week in instant ticket sales and \$7,000 a week in online game sales.

"Selling Lottery products helps bring in customers," Ralph said. "People get a lot of fun out of playing it and the employees have fun selling it. It's exciting when a customer wins."

Edco doesn't experience the high employee turnover convenience store retailers typically face. Part of that may have to do with the Lottery bonuses Edco shares with its five employees.

"When we sell a winning ticket, everybody wins," Ralph said. "It's only fair that the employees share in the Lottery bonus Edco receives because they do all the work. They have a stake in working here."

"Selling Lottery products is an important part of our business," Ralph said. "The first question on our job application is, 'Can you run a lottery machine?'"

Edco employees have shared some substantial Lottery bonuses over the years. In 1997 Edco sold a winning \$46 million Powerball ticket, and in 1998 an Edco customer won \$1 million on the Hoosier Millionaire show.

In fiscal year 2002, \$43.2 million was paid to Indiana retailers in commissions and bonuses, and retailers have earned more than \$424.8 million since the Hoosier Lottery's inception in 1989.



Nancy Rasmussen

Firefighter Nancy Rasmussen has peace of mind knowing Lottery profits are used to help fund her pension.

Lottery Supports Public Servant Pensions

Nancy Rasmussen has more than 22 years of experience fighting fires in Indianapolis. When she joined the Indianapolis Fire Department (IFD) in 1980, the then-33-year-old "stay-at-home" mother of six was one of only two women firefighters hired to join the department.

Today, Rasmussen is IFD's deputy chief, a promotion she received in 2000 that made her the first woman to achieve this high-level ranking.

At 55, Rasmussen said she feels more secure knowing that Lottery dollars help fund her pension, especially with the country's current economic recession.

"Like so many other Americans, the retirement portfolio I felt comfortable with a year ago is all but gone," she said. "Pension funding is a big area of concern for many firefighters today. As popular as the Lottery has become in Indiana, it's comforting to know that the funds from the Lottery are likely to continue."

In fiscal year 2002, more than \$60 million of Lottery revenues helped fund public employee pensions. The Hoosier Lottery has generated \$558.9 million for these important funds since 1989.



Booker Thomas

According to HealthNet President and CEO Booker Thomas, projects like the Martindale-Brightwood Health Center couldn't happen without the financial support his organization receives from Lottery profits channeled into the Build Indiana Fund.

Lottery Profits Enhance Quality of Life in Indiana Communities

In Indianapolis, Hoosier Lottery profits are being used to improve the health, education and quality of life of disadvantaged residents in inner-city neighborhoods.

One example is in the Martindale-Brightwood neighborhood, where Genesis Plaza, a 28,400-square-foot development located at 29th Street and Keystone Avenue, opened in August 2001. It replaced an old trailer that had served as a temporary neighborhood health clinic since 1995.

The centerpiece of the plaza is a new 14,000-square-foot health center specially designed to provide medical and dental care for area residents.

The \$3 million Genesis Plaza project got started in 1999 through collaboration between civic, business, state, city and neighborhood leaders, as well as financial leaders and members of the Indiana General Assembly. Almost \$200,000 of Build Indiana Fund monies were used to fund the project.

"Today we're able to provide necessary social and health care services in a one-stop location," said Booker Thomas, president and CEO for HealthNet. "Without Build Indiana funds and support from legislators Bill Crawford, Billie Breaux, John Day, Greg Porter and Vanessa Summers, we would not have been able to construct this much-needed facility."

Genesis Plaza also is home to satellite services by Community Centers of Indianapolis; the Family and Social Services Administration; the Indiana Opportunities Industrialization Center's State Council; the Martindale-Brightwood Community Development Corp., and the Minority Health Coalition of Marion County. Plaza tenants provide neighborhood residents with social services, life skills, job training and education.

Over the years, more than \$513 million in Hoosier Lottery revenues have been channeled into the state's Build Indiana Fund to help pay for projects in each of Indiana's 92 counties.



Brenda Pupillo and sons

A mother of three boys, Dyer resident Brenda Pupillo uses the money she saves on her license plate excise taxes to fill up her bottomless gas tank.

Lottery Saves Money for Hoosier Drivers

Vehicle owners in Indiana receive big tax benefits from revenues generated by the Hoosier Lottery.

Lottery revenues represent nearly 44 percent of the \$1.3 billion in total gaming surplus funds that have been transferred to the motor vehicle excise tax account over the past 13 years. These funds have enabled the Indiana Bureau of Motor Vehicles (BMV) to reduce vehicle excise taxes by up to 50 percent for Hoosier drivers.

Brenda Pupillo, a mother of three active boys – ages 12, 10 and 7 – appreciates the money she's saved on her license plates each year.

"As a parent of three kids, I'm constantly on the go. It's amazing how much time I spend in my car taking them to soccer practice, picking them up from after-school functions and dropping them off at friends' houses," said Pupillo, who lives in Dyer. "The savings I receive from my license plate excise taxes go straight into my gas tank."

Since the Lottery's inception in 1989 through fiscal year 2002, the state used more than \$593.5 million in Lottery surplus revenues to help reduce motor vehicle excise taxes. In fiscal year 2002, \$65.2 million was used to support this fund.



Joyce Cerbone with family/new house

Frankfort resident Joyce Cerbone won \$1 million on the Lottery's Hoosier Millionaire show. She used her winnings to pay off debt and to purchase a new home for her family.

Lottery Pays Players More Than \$1 Million in Prizes Daily

Not many businesses can boast that they've created more than 300 millionaires, but the Hoosier Lottery can. More than half (56 percent) of every dollar the Lottery generates in ticket sales is returned to players, and the Lottery has created 354 millionaires since 1989.

Most Hoosier Lottery winners live in Indiana, where they invest their winnings in their families and communities. Joyce Cerbone, of Frankfort, is one such winner.

Cerbone became a Hoosier Millionaire at the Lottery's annual Indiana State Fair road show. She was one of six audience members picked to be a show contestant. After Cerbone won the \$1 million during the millionaire round, her family rushed from the stands as audience members leapt to their feet, clapping and cheering wildly.

Cerbone chose the cash option, netting \$500,000 before taxes. When asked how she would spend her winnings, Cerbone had definite plans.

"I'll use my winnings to get out of debt and to buy a house," she said. "And now I can help my daughter get a car – one that doesn't break down all the time."

Cerbone and her husband officially became homeowners in September when they bought a house in Frankfort. Cerbone couldn't be more thrilled.

"I've always wanted my own home," she said. "And now I finally have it."

Each day, the Hoosier Lottery pays an average of more than \$1 million in prizes to its players. Since 1989, the Lottery has paid more than \$3.7 billion in prizes. And in fiscal year 2002, winners received more than \$371 million.

The State Lottery Commission of Indiana

Financial Statements for the Years Ended June 30, 2002 and 2001

STATEMENTS OF NET ASSETS

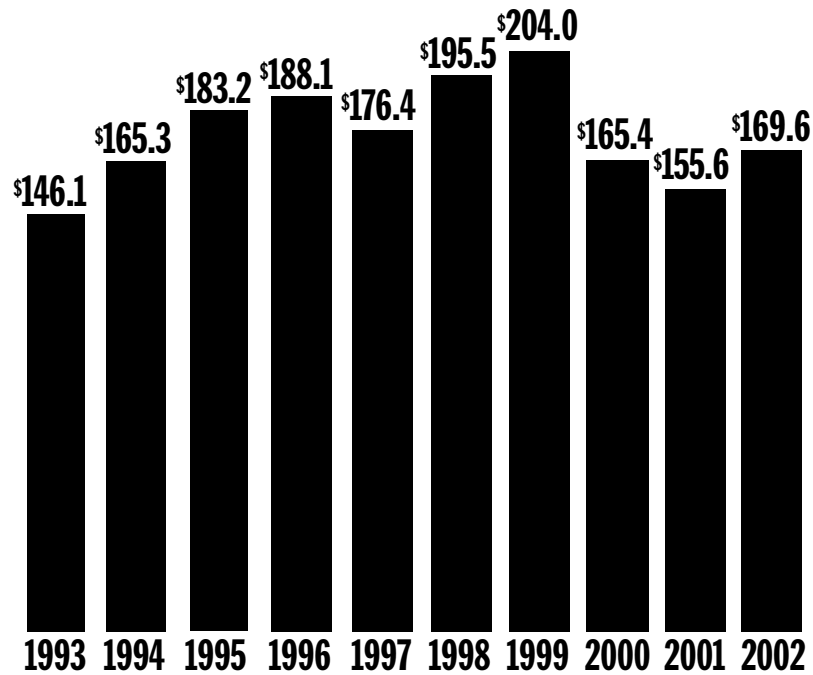
	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 43,902,833	\$ 34,481,004
Current portion of investments	23,875,696	21,636,818
Accounts receivable, less allowance of \$2,067,373 and \$2,335,491, respectively	17,782,386	13,747,051
Scratch-off ticket inventory	160,776	1,535,882
Prepaid expenses	548,194	94,984
Accrued interest receivable	335,117	433,978
Total Current Assets	86,605,002	71,929,717
NONCURRENT ASSETS		
Restricted Assets	10,566,687	11,273,081
Long-term Investments, less current portion above	51,445,962	43,110,100
Capital Assets		
Vehicles	1,816,064	1,795,030
Furniture, fixtures and equipment	4,029,303	3,975,340
Data processing equipment	6,326,207	6,351,845
Accumulated depreciation	(10,749,832)	(10,258,926)
Total Noncurrent Assets	63,434,391	56,246,470
TOTAL ASSETS	<u>\$ 150,039,393</u>	<u>\$ 128,176,187</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 8,177,121	\$ 5,910,058
State Treasurer	39,624,990	36,384,927
Current portions of accrued prize liability	43,816,705	35,188,895
Deferred on-line game revenue	367,593	327,952
Other accrued expenses	1,885,765	1,073,717
Total Current Liabilities	93,872,174	78,885,549
LONG-TERM LIABILITIES		
Long-term portions of accrued prize liability		
Less current portion above	51,167,219	44,290,638
Total Noncurrent Liabilities	51,167,219	44,290,638
TOTAL LIABILITIES	<u>145,039,393</u>	<u>123,176,187</u>
NET ASSETS		
Unrestricted	5,000,000	5,000,000
TOTAL NET ASSETS	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

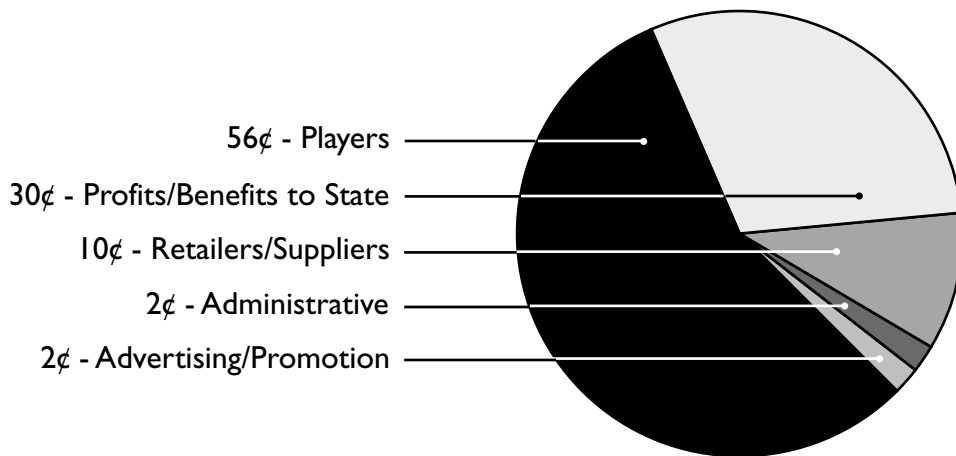
	2002	2001
OPERATING REVENUES		
Charges for Services		
On-line ticket sales	\$ 273,004,613	\$ 238,450,673
Scratch-off ticket sales, net	353,305,207	309,837,612
Total Operating Revenues	626,309,820	548,288,285
OPERATING EXPENSES		
Game expenses		
On-line games prizes	136,980,158	119,610,892
Scratch-off game prizes	219,730,805	185,007,116
Television game show prizes	14,496,223	14,865,998
Ticket printing costs	5,207,952	6,122,005
Advertising and promotion	10,036,597	10,339,442
Retailer commissions	43,313,172	35,305,570
On-line professional services	12,815,325	11,296,236
ITVM lease and courier services	1,887,075	1,905,344
Total game expenses	444,467,307	384,452,603
Other operating expenses		
Salaries, wages and benefits	12,584,882	11,127,424
Professional services	495,154	312,671
General and administrative	3,728,714	4,540,057
Total other operating expenses	16,808,750	15,980,152
Total Operating Expenses	461,276,057	400,432,755
OPERATING INCOME	165,033,763	147,855,530
NONOPERATING REVENUES/(EXPENSES)		
Interest income	2,250,176	4,187,213
Net increase/(decrease) in fair value of investments	1,940,493	1,713,305
Interest expense	(2,769,238)	(3,397,600)
Other income	2,897,097	5,226,666
Total Nonoperating Revenues/(Expenses)	4,318,528	7,729,584
NET INCOME PRIOR TO DISTRIBUTIONS TO STATE TREASURER	169,352,291	155,585,114
Distributions to the State Treasurer	(129,727,301)	(119,251,146)
Distributions to be paid to the State Treasurer	(39,624,990)	(36,384,927)
Total Distributions to the State Treasurer	(169,352,291)	(155,636,073)
Changes in Net Assets	-	(50,959)
Total Net Assets - beginning	5,000,000	5,050,959
Total Net Assets - ending	<u>5,000,000</u>	<u>5,000,000</u>

The financial statements are excerpts from the Hoosier Lottery's audited financial statements for the years ended June 30, 2002 and June 30, 2001. Complete financial statements are available upon request to Controller, Hoosier Lottery, P.O. Box 6124, Indianapolis, IN 46206

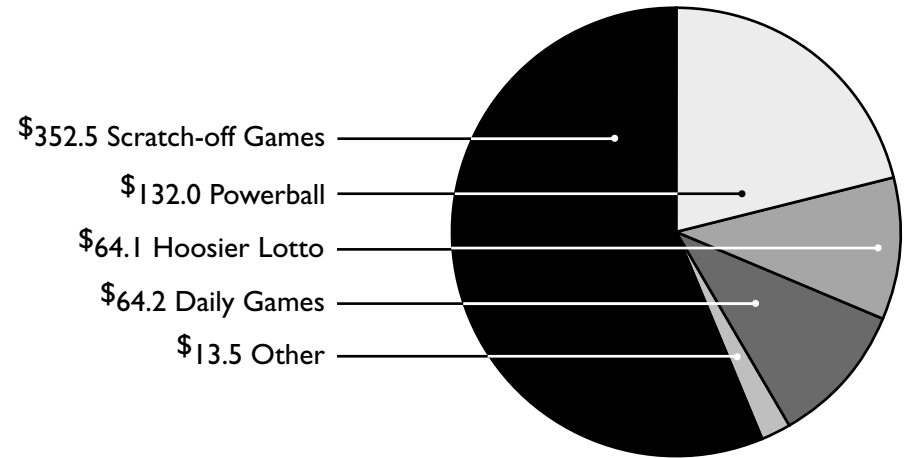
Statistical Information - 10 Year Span



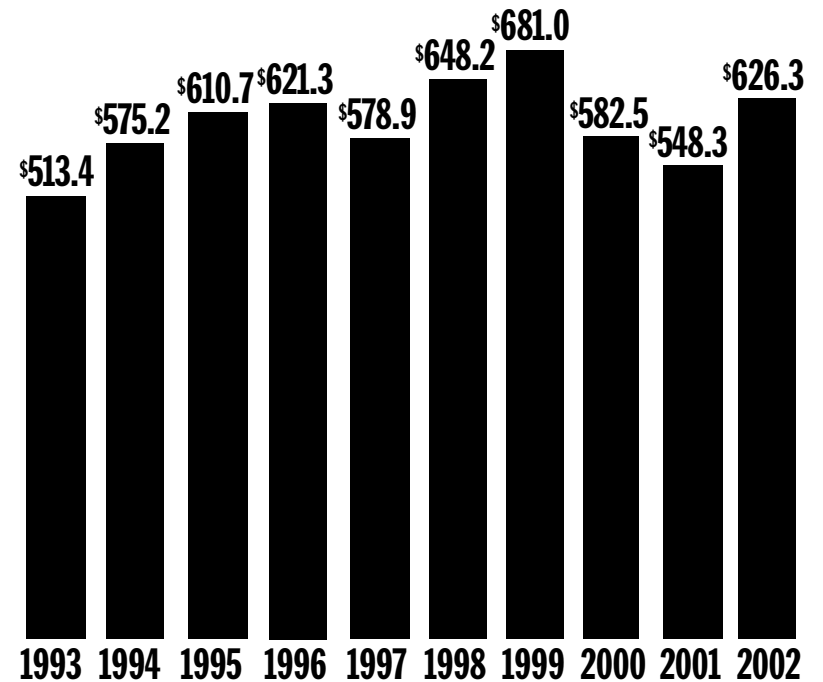
Total Profits (Millions of Dollars)



Dollar Breakdown: Where Does The Money Go?



Total Revenue (Millions of Dollars)



Total Sales (Millions of Dollars)

Hoosier Lottery Regions

Headquarters

Pan Am Plaza, Suite 1100
201 S. Capitol Ave.
Indianapolis, IN 46225
(317) 264-4800

Region 1, Indianapolis

Deloris Garrett, Manager
Ameriplex, Suite A
5252 Decatur Blvd.
Indianapolis, IN 46241
(317) 821-3200

Region 2, Gary

Rodney Williams, Manager
1501 Martin Luther King Blvd.
Gary, IN 46407
(219) 882-6076

Region 3, South Bend

Penni Cooley, Manager
1539 N. Ironwood Dr.
South Bend, IN 46635
(574) 277-1388

Region 4, Fort Wayne

Karen Merchant, Manager
2413 Hobson Rd.
Fort Wayne, IN 46805
(260) 482-9000

Region 5, Muncie

Lawrence Burden, Manager
3415 W. Fox Ridge Lane
Muncie, IN 47304
(765) 288-3594

Region 6, New Albany

Dan Cranmer, Manager
Summit Square, Suite 15
3211 Grant Line Rd.
New Albany, IN 47150
(812) 948-9682

Region 7, Evansville

June Leslie, Manager
5625 E. Virginia Rd.
Evansville, IN 47715
(812) 477-0109

Region 8, Terre Haute

Andrew Rowe, Manager
680 E. Springhill Dr.
Terre Haute, IN 47802
(812) 238-1833

Lottery Commission

George Weems

Chairman
East Chicago

Roger Eiteljorg

Indianapolis

Leon J. Fleck

Jasper

Michael S. Gouloff

Fort Wayne

Yvette R. Payne

Evansville

Lottery Executive Staff

John M. Ross

Director
Responsible for the overall
operation of the organization.

Nancy Dorsa

Deputy Director/Controller
Responsible for accounting division
and assisting director in overall
operation of the organization.

Norman Aranda

Director of Administration
Responsible for Lottery
administrative functions, procurement
and facilities management.

Gary Catey

Director of Sales
Responsible for sales division.

Dave Kress

Director of Information Services
Responsible for information and
systems, programming, and technical
support.

Colleen O'Brien

Director of Communications
Responsible for publications, web site
communications and communications
on behalf of the director.

Charles O'Hara

Director of Marketing
Responsible for development and
monitoring of the marketing process
and advertising for Lottery products.

Joseph Pfister

Internal Auditor
Responsible for reviewing and
evaluating internal controls and
preparing audit reports.

Andrew Reed

Director of Public Relations
Responsible for Lottery promotions
with the public, players and media.

Janna Shisler

General Counsel
Responsible for contract drafting,
litigation and rule drafting.

Gerry Van Meter

Director of Security
Responsible for promoting and
protecting the integrity and public
confidence in the Lottery.